Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

Subcommittee No. 3 on
Health, Human Services, Labor, & Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

AGENDA

Governor Schwarzenegger's Proposed Mid-Year Reductions

December 10, 2003
11:00 AM
Room 4203

(Diane Van Maren and Ana Matosantos, Consultants)

Issues To Be Discussed **(Discussion Items-- on Page 4)**

1. **Additional 10 Percent Reduction to Medi-Cal Rates & Other Programs**
2. **Wage Adjustment Rate Program (WARP) for Nursing Homes**
3. **Governor's Proposed Cap on Enrollment for Health & Human Services Programs**
4. **Eliminate "Non-Core" Regional Center Services**
5. **In-Home Supportive Services (IHSS)**
6. **CA Veterans Cash Benefit Program**
7. **CA Work Opportunity & Responsibility to Kids (CalWORKS)**
8. **TANF Fund Transfer to Non-CalWORKS Programs**
9. **Food Stamps Program (benefits and reforms)**
10. **Community Care Licensing Division**
11. **Supportive Transitional Emancipation Program**
12. **Department of Industrial Relations**
13. **Elimination of Vehicle License Fee Poison Pill**
14. **Revert Prior Year Savings and Unspent Current Year Funding**

PLEASE NOTE: Public Testimony will be taken on each item as contained in the Agenda. It is critical to understand the meaning of these proposed reductions in terms of their affect on people in need and their families. However due to the volume of the proposed reductions, it may be necessary to move some speakers along in an effort to hear from as many people as feasible. Written testimony is always welcomed as well. Thank you for your participation in today's hearing.

I. Overview of Governor Schwarzenegger's Reductions to Health & Human Services

Overall Summary of Mid-Year and 2004-05 Effects: As noted in the table below, the Governor **is proposing reductions which equate to $762 million ($455 million General Fund) for the current year and $1.809 billion ($1.238 billion General Fund) for 2004-05 (i.e., an annualized basis) for health and human services programs. These proposed reductions represent 20 percent of the proposed General Fund reduction for 2003-04** ***and 76 percent of it for 2004-05.***

It should be noted that the **Administration has testified in prior hearings that additional reductions to health and human services programs for 2003-04, as well as 2004-05, will be proposed in the Governor's January Budget.**

In addition, it should be noted that the Governor's proposals do not include any solutions related to obtaining additional federal funds ***or*** **identifying any savings from fraud, abuse or waste.**

TABLE 1 Summary of Governor's Mid-Year Reductions to General Fund

Area of Budget	2003-04 General Fund Effect (Dollars in Millions)	2004-05 General Fund Effect (Dollars in Millions)
Health and Human Services	**$455 million (20 percent of total reduction)**	**$1.238 billion (76 percent of total reduction)**
Education	159 million	160 million
Resources /EPA/ Capital Outlay	114 million	10 million
BTH/ Local Government	1.387 billion	61 million
Correctional/ General Government	1 million	1 million
Budget Control Section 4.1 (Budget Act of 2003 authority)	150 million	150 million
TOTALS	**$2.264 billion**	**$1.620 billion**

II. Summary of Health and Human Services Reductions: The table below summarizes the Governor's proposed reductions to services for individuals in need.

TABLE 2 Summary of Governor's Health & Human Services Reductions

Department and Proposal	2003-04 Total Funds	2003-04 General Fund	2004-05 Total Funds	2004-05 General Fund
4260 Health Services	**$422.8 million**	**$212.1 million**	**$953.8 million**	**$468.7 million**
● Additional 10% Medi-Cal rate reduction (January 1, 2004 to January 1, 2007—three years)	327 million	160.9 million	947.3 million	462.2 million
● Additional 10% rate reduction to Public Health Programs—CCS, CHDP, and GHPP	3.8 million	3.8 million	6.5 million	6.5 million
● Rescind LTC Wage Adjustment	92 million	46 million	0	0
4300 Developmental Services	**$78 million**	**$69 million**	**$204 million**	**$181 million**
● Eliminate specified RC services, such as respite, social/recreational and non-medical therapies.	$78 million	$69 million	$204 million	$181 million
5180 Department of Social Services	**$220.6 million**	**$133.5 million**	**$565.3 million**	**$502.7 million**
● Eliminate California Veterans Cash Benefit Program	1.4 million	1.4 million	5.5 million	5.5 million
● Eliminate In-Home Supportive Services Residual Program	88.1 million	88.1 million	367.9 million	367.9 million
● Reduce CalWORKS Grants	45.3 million	0	179.7 million	0
● Transfer Maximum Amount of Federal Funds from CalWORKS to Obtain General Fund Savings	82.2 million	41.1 million	239 million	119.5 million
● Eliminate Transitional Food Stamp Benefits Program	1.6 million	1.1 million	5.2 million	3.1 million
● Repeal AB 231 (Steinberg) regarding Food Stamp Eligibility	404	186	772	444
● Eliminate Supportive Transitional Emancipation Program	38	38	338	338
● Increase Community Care Licensing Fees (revenue enhancement to State)	1.2 million	1.2 million	5.8 million	5.8 million
5209 Health & Human Services (Various Adjustments across Items)	**$40.7 million**	**$40.7 million**	**$85.9 million**	**$85.9 million**
● Cap Enrollments to Various Health & Human Services Programs	11 million	11 million	60.9 million	60.9 million
● Cap Enrollments to State-Only Programs for immigrants	153	153	25 million	25 million
● Revert Prior Year Savings and Unspent Current Year Funding	29.6 million	29.6 million	0	0
TOTAL REDUCTIONS (Rounded)	**$762 million**	**$455 million**	**$1.809 billion**	**$1.238 billion**

III. Discussion of Governor's Reductions—Affect on People In Need

1. Additional 10 Percent Reduction to Medi-Cal Rates *and* Other Programs

Governor's Proposal: The **Governor is proposing another ten percent reduction** to Medi-Cal Program rates in addition to the five percent reduction (effective January 1, 2004 to January 1, 2007) made in the Budget Act of 2003 and accompanying trailer bill language. **Since certain public health programs are linked to Medi-Cal, any proposed rate reduction to Medi-Cal also affects the California Childrens Services (CCS) Program, the Child Health Disability Prevention (CHDP) Program and the Genetically Handicapped Persons Program (GHPP)**.

It should be noted that the Legislature rejected on a bipartisan basis this cumulative 15 percent reduction during the budget deliberations of 2003-04, and instead adopted a 5 percent reduction. This five percent reduction held harmless nursing home facilities, Adult Day Health Care, and several other areas, including inpatient hospital services.

The Governor's proposal assumes the following reduction levels.

Table: Affect of Additional 10% Reduction to Rates (January 1, 2004 to January 1, 2007)

Service/Provider Category	2003-04 Total Funds Reduction	2003-04 General Fund Reduction	2004-05 Total Funds Reduction	2004-05 General Fund Reduction
Physician Services	$30.4 million	$16.4 million	$88.4 million	$47.8 million
Other Medical (podiatry, acupuncture, occupational therapy, many others)	$22.4 million	$11.9 million	$63.2 million	$33.6 million
Pharmacy	$183.5 million	$94.1 million	$398.6 million	$204.3 million
Medical Transportation	$4.3 million	$2.2 million	$12.1 million	$6.2 million
Other Services (hearing aids, hospice, AIDS Waiver, and others)	$27.8 million	$9.1 million	$79.4 million	$26 million
Home Health	$5.4 million	$2.7 million	$15.6 million	$7.8 million
Dental Services	$22.9 million	$11.9 million	$45.8 million	$23.7 million
Early, Periodic Screening, Diagnosis & Treatment (EPSDT)	$1.1 million	$540,000	$2.8 million	$1.4 million
• Total Fee-For-Service	$297.7 million	$148.8 million	$705.9 million	$350.8 million
• Managed Care Plans	$19 million	$9.1 million	$197 million	$98.5 million
• Family PACT	$10.3 million	$3 million	$44.4 million	$12.8 million
TOTAL for Medi-Cal (Rounded)	**$327 million**	**$160.9 million**	**$947.3 million**	**$462.2 million**
CA Children's Services (CCS-Only)	$1.8 million	$905,000	$3.6 million	$1.8 million
CHDP	$806,000	$806,000	$380,000	$380,000
GHPP	$2.1 million	$2.1 million	$4.3 million	$4.3 million
TOTAL REDUCTION	**$331.7 million**	**$164.7 million**	**$955.6 million**	**$468.7 million**

According to the Administration, their additional 10 percent reduction would be applied in the same manner as the five percent reduction, except that clinical laboratory services and durable medical equipment (DME) which were excluded from the 5 percent reduction, are included in the Administration's 10 percent reduction.

Five Percent Reduction in Litigation: There are **several lawsuits pertaining to the five percent Medi-Cal rate reduction adopted in the Budget Act of 2003**, including **(1)** CMA, et al. v. Bonta', **(2)** Clayworth, et al. v. Bonta', and **(3)** Mel-Pharm, et al. v. Bonta'. ***Generally***, all of these lawsuits are seeking a preliminary injunction to block the state's implementation of the reduction (slated for January 1, 2004) and to ultimately reverse or negate the reduction. The basis of the litigation generally pertains to access to services, with the underlying assumption being that providers will drop out of the program due to lack of appropriate payment. Preliminary hearings for these cases are scheduled for early December.

Subcommittee Staff Comment: In the Budget Act of 2000, most services provided under Medi-Cal received rate adjustments. This action was not an across-the-board rate increase but instead targeted services for which Medi-Cal physician rates were relatively low in comparison to the Medicare Program. **Generally, other than annual adjustments for nursing home rates and a few select other areas, there has not been a rate increase for most Medi-Cal services prior to the Budget Act of 2000 since 1986.**

A Pricewaterhouse study completed last year found that, even after accounting for the rate increase provided in 2000, Medi-Cal rates continue to lag behind those of other purchasers of health care coverage in California. Another study released last year found that while the 2000 Medi-Cal rate increases were substantial, they collectively only brought the Medi-Cal provider rates from 58 percent to 65 percent of California's average Medicare payment rates.

The Medi-Cal Policy Institute's 2001 analysis of Medi-Cal providers found that less than half of the state's physicians are even willing to accept Medi-Cal patients.

Questions for the Administration: Please **briefly** respond to the following questions:

- **1.** Please briefly present your proposal.
- **2.** Is it likely that providers will stop participating in Medi-Cal, as well as the specified public health programs, if another 10 percent reduction in rates is made?
- **3.** How does California's existing Medi-Cal rate for physician services compare to other states? How about California's cost per Medi-Cal recipient and other states?

2. Wage Adjustment Rate Program (WARP) for Nursing Homes

Background: Through the Budget Act of 2001 and accompanying trailer bill legislation, an appropriation was provided to serve as **a supplemental wage adjustment for long-term care facilities which have a legally binding written commitment to increase salaries, wages, or benefits for certain staff.**

Though this legislative action was taken in 2001, the DHS has failed to finalize the guidelines necessary for nursing homes to submit appropriate documentation for the appropriated funds to be allocated. As such, the funds have never been allocated.

In fact, the DHS did not issue nursing home provider instructions until October 3, 2003 (mailed as of October 10th) and then asked providers to hold submission of their data while the DHS issued an errata notice to correct a problem with the instructions that were mailed. The DHS errata instructions were suppose to be issued by no later than November 14th but have been subsequently withheld from release.

The Budget Act for 2003 provided a total of $46 million (General Fund) for supplemental wage payments to be made for 2002-03 and 2003-04.

Governor's Proposal: The Governor **proposes to eliminate the $46 million (General Fund) appropriated in the Budget Act for 2003, and to delete the existing statute regarding the WARP.**

Constituency Concerns: The Subcommittee has received letters of concern from both the nursing home industry and labor representatives. **Both of these parties maintain that employers have spent millions of dollars to improve wages and benefits in order to stabilize the nursing home workforce contingent on implementation of the WARP. Specifically, the California Association of Health Facilities (CAHF) estimates that the cost of honoring the existing commitments made by providers will be up to $12 million for 2003-04.**

They note that studies have shown that a stable workforce is directly linked to improved quality of care in nursing home facilities. Further, they contend that the state is violating its promises by failing to fund the supplemental rate.

Questions for the Administration: Please **briefly** respond to the following questions:

- **1.** Please briefly present your proposal.
- **2.** Why hasn't the DHS proceeded with instructions and implementation on a timely basis?
- **3.** How does California's nursing home rates compare to other states?
- **4.** Please comment on the $12 million estimated provider commitment presented by CAHF.

3. Governor's Proposed Cap on Enrollment for Health & Human Services Programs

Governor's Reduction Proposal: The Governor proposes **to cap enrollment in various health and human services programs, including Healthy Families, Regional Center services, certain Medi-Cal populations, certain social services programs, AIDS Drug Assistance (ADAP), California Children's Services (CCS), the Genetically Handicapped Persons Program (GHPP), and employment services programs for individuals with disabilities. These programs provide critical services—such as prenatal care, drugs for HIV/AIDS, food assistance, and medical care—for which people literally cannot go without.**

The Governor's proposal poses *significant health and safety issues* as discussed below, and would require substantive changes to existing statute including suspension of the 30-year old Lanterman Act. It also clearly tries to shift costs to counties as the provider of last resort.

Under the proposal, programs would be capped in the current-year based upon program participant enrollment levels, primarily the level of enrollment anticipated as of January 1, 2004. Once the enrollment cap has been reached, eligible individuals needing services would be placed on a waiting list for services.

The eligible individual on the waiting list would *not* receive *any* services, other than in the Regional Center Program which would only provide intake and assessment services for purposes of eligibility, until someone left the program in question.

According to the DOF, the various waiting lists would <u>not</u> be based on medical need, except for <u>possibly</u> the AIDS Drug Assistance Program and the Regional Center services. Further, they note that if medical need were taken into consideration for the various waiting lists that the potential "savings" from capping enrollment would be negligible.

Further, it should be noted that the Administration's draft trailer bill language intended to implement caps on programs, really goes beyond this and actually significantly limits existing services to existing eligible populations.

In addition, the proposal would require increased expenditures for the administration of a waiting list, including personnel, computer system changes and related administrative functions. No comprehensive cost estimate has been forthcoming from the DOF on this aspect.

Table: *Potential* Effects of Capping Enrollment on Programs According to the DOF

PROGRAM	Capped Enrollment Level	2003-04 Caseload Affected **(No Services)**	2003-04 General Fund Reduction	2004-05 Caseload Affected **(No Services)**	2004-05 General Fund Reduction
Healthy Families. Two caps are proposed—one for legal immigrant children and one for the remainder of the children in the program. Children above the cap would need to seek assistance at the county level, or hope their parents can obtain employer-based coverage for them.	732,300 total children (20,300 & 712,000)	22,200 total children (700 & 21,500)	$0	113,800 total children (2,000 & 111,800)	$31.5 million ($2.4 million & $29.1 million)
California Childrens Services (CCS) (Children not eligible for Medi-Cal or Healthy Families). Children above the cap would need to seek assistance at the county level.	37,594 children	792 children	$121,000	1,512 children	$1.9 million
Medi-Cal Program—as shown.			Due to the need to establish a statewide waiting list, there would be no savings in 2003-04		
• **Legal immigrants in the country less than 5 years** (children and adults) People above the cap may be able to receive emergency services as required by federal law, or seek assistance at the county level.	113,139 individuals 794,700 individuals	0 0		11,439 individuals 65,900 individuals	$5.6 million $9.8 million
• **Prenatal Care and Long-Term Care to Undocumented Individuals** (women, infants, and the bedridden elderly). People above the cap may be able to receive emergency services as required by federal law, or will seek assistance at the county level.	2,183 individuals	0		525 individuals	$1.8 million
• **Breast & Cervical Cancer Program.** This includes legal immigrants in the country for less than 5 years and undocumented individuals who have cancer. People above the cap would need to seek assistance at the county level.					
AIDS Drug Assistance Program. Individuals with AIDS above the cap would need to seek assistance at the county level.	26,479 individuals	1,900	$275,000	3,800	$550,000

Table *(cont.)*: *Potential* Effects of Capping Enrollment on Programs According to the DOF

PROGRAM	Capped Enrollment Level	2003-04 Caseload Affected **(No Services)**	2003-04 General Fund Reduction	2004-05 Caseload Affected **(No Services)**	2004-05 General Fund Reduction
Genetically Handicapped Persons Program (GHPP). These are services to individuals who are low-income and have a qualifying condition—mainly Hemophiliacs. People above the cap will need to seek assistance at the county level.	842 individuals	42	$245,000	36	$194,000
CA Food Assistance Program. This program provides food assistance to recent immigrants, battered immigrants and persons paroled to the US for humanitarian, health and political reasons. Persons above the cap will need to seek services from food banks or county services.	10,230 individuals	0	$0	1,316	$100,000
Cash Assistance Program for Immigrants. CAPI provides cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of federal welfare reform. Persons above the cap will need to seek assistance at the county level.	8,645 individuals	60	$71,000	927	$4.3 million
CalWORKS for Legal Immigrants. This program provides cash assistance and employment services to immigrants who have been in the US for less than 5 years.	5,200 individuals	0	$0	0	$0
Regional Center Services. These are services to individuals with developmental disabilities. Only intake and assessment services would be available to individuals with developmental disabilities above the cap, nothing else. People above the cap would need to seek services from non-profit entities or schools, but most likely would go without services.	189,940 individuals	5,100	$8 million	10,200	$16 million
Vocational Rehabilitation. These are employment services provided to individuals with disabilities. Persons above the cap would be unemployed.	75,429 individuals	15,863	$1.8 million	29,776	$8.6 million
Habilitation Services. These are employment services provided to persons with disabilities.	17,305 individuals	20	$149,000	195	$771,000

State Hospitals. Would limit access to the state mental hospitals for two populations—Incompetent to Stand Trial (IST) and Not Guilty by Reason of Insanity (NGI). People above the cap would stay in county jails.	2,045 individuals	14	$361,000	42	$3.7 million
TOTAL Estimated Dollars			**$11 million**		**$84.8 million**

Senate Budget Staff Comments—Over All Concerns: All of these programs provide either medically necessary health care services, assistance with daily living activities, or fundamental assistance for food and shelter. **They serve to protect the health and safety of vulnerable populations who are eligible for services due to low-income status, medical need, and disabling condition.**

Denying access to services will most likely lead to the following problems and concerns:

- Increases in disabling conditions for individuals not receiving medical treatment or appropriate services and supports (such as for individuals with developmental disabilities), which would likely lead to premature deaths.
- Increases in health care costs due to the need for more intensive medical care. Untreated medical conditions, such as HIV/AIDS, heart disease, diabetes, asthma, will lead to patients requiring more medical care in order to first medically stabilize and then treat the patient. In addition, individuals with communicable diseases, such as TB, may unknowingly and inadvertently transmit to others.
- Increases in medical problems affecting pregnant women and their unborn, or newly born, infants. Research has shown time and again that prenatal care is essential in maintaining the mother's health, as well as the viability and health of the infant.
- Increases in emergency room care at hospitals and increases in uncompensated care at community health care clinics as individuals with medical conditions seek to receive care and treatment. This would also most likely lead to increases in expenditures at the county level as the provider of last resort (See Section 17000 of Health and Safety Code).
- Increases in absences from school as low-income, medically needy children cannot obtain health care treatment.
- Increases in the prevalence of children with potentially handicapping conditions since the California Children's Services (CCS) Program will not provide timely treatment.
- Places individuals with developmental disabilities at greater risk of being placed outside their home as services and supports for families would be placed on hold until there was an opening for services.
- Increases the likelihood of hunger, homelessness and domestic violence experienced by persons on the waiting list. The financial resources available to aged, blind or disabled immigrants, including those here for humanitarian and political reasons, would be significantly diminished for the purchase of food, rent and other necessities.
- Increases in the demand for county funded General Assistance programs, food banks and other safety net resources.
- Reduces participation in employment and increases reliance on public assistance programs for individuals with disabilities.

- Jeopardizes existing $52 million (federal funds) received for the Early Start Program which provides assistance to infants and toddlers (birth to three years of age) at risk of developmental delays. This federal program does not allow for waiting lists.
- Decreases federal funding available to the state from several sources, including Medicaid, the Home and Community Based Waiver for individuals with developmental disabilities, and the State Childrens Health Insurance Program (S-CHIP).
- Increases in fair hearings and litigation relating to the creation of the waiting lists and the denial of services.
- Increases unduly administrative costs—both at the state level and provider level—to develop and track waiting lists for all of these programs, as well as discern medical necessity for some of the programs, such as for the AIDS Drug Assistance Program (ADAP). This will require more state staff, computer system changes, as well as making ethical choices as to whom is deemed most in need.

<u>Senate Budget Staff Concerns—Proposed Trailer Bill Legislation:</u> The Administration contends that their proposed legislative changes are intended to cap enrollment. **However in many instances, the Administration's draft trailer bill goes well beyond this intent and actually would lead to the termination of services for individuals presently receiving services.**

Examples where the Administration's language goes *well beyond* the development of a cap on enrollment and a waiting list:

- **For Regional Center services**, their language would give Regional Centers the authority to deny, modify, reduce or terminate ***any*** **services to *any* consumer**, **including those services and supports identified in the consumer's Individual Program Plan (IPP).** It also eliminates all due process provisions by providing that consumers whose services have been denied, modified or terminated may not appeal the Regional Center's decision.

- **Under the Cash Assistance Program for Immigrants**, their language would limit the existing state entitlement for cash assistance for legal aged, blind or disabled immigrants subject to the level of funds and caseload reflected in the annual budget act. As such the Governor could veto funding for the program for existing program participants.

- **Under the California Children's Services (CCS) Program and the Genetically Handicapped Persons Program (GHPP)**, their language would restrict expenditures for GHPP services to those necessary services as determined by the department. It is unclear at this time as to what the Administration intends with this proposed statutory change.

__Questions for the Administration:__ The following questions are posed to the Administration:

- **1.** Please briefly describe your proposal and how a waiting list mechanism would operate for all of the programs. **(Please use the above Table as a guide to order the discussion.)**
- **2.** How will individuals-- who by definition of their eligibility for a program are in need of intensive medical services, therapy or food--, otherwise receive assistance for services under each of these programs? **(Please use the above Table as a guide to order the discussion.)**
- **3.** If an individual who is eligible for services and is waiting on a list becomes more medically involved or dies, who is responsible?

4. Eliminate "Non-Core" Regional Center Services

Governor's Proposed Reduction: Effective January 1, 2004, **all Regional Center services** for individuals with developmental disabilities **related to respite care, social/recreational activities, and non-medical therapy programs would be eliminated for a reduction of $69 million (General Fund).** This service elimination would also include services such as counseling services, socialization training, art therapy, music therapy, and camping services.

Senate Budget Committee Staff Comments: **First, respite care should be considered a "core" service.** Almost 70 percent of all individuals with developmental disabilities receiving Regional Center services live at home. Family members are the key caregivers who provide continued care and supervision. Respite services enable family members to leave the house to perform essential errands, to do activities for other family members (such as siblings), or to just have some quite time on their own. **Many families are already stretched to the limit when they are taking care of a developmentally disabled family member, and without access to respite services, some of these families will likely seek more costly out-of-home placement for their child.**

It should be noted that the average cost per RC consumer for respite services is $2,658 per year, whereas the average cost per RC consumer living in a community residential facility is about $20,000 per year. As such if only a few families (about 10 percent) placed their family member into a community residential facility, costs would increase, not decrease, under this proposal.

Second, social/recreation programs and non-medical therapy programs are provided for a variety of valid, clinical reasons. Individuals with developmental disabilities, like most people, benefit from social/recreation activities. These activities provide assistance with overall development—social interaction, communication, physical agility and progress, development of friendships and sense of community. Standard recreational activities—such as soccer clubs, baseball and the like—do not allow for individuals with developmental disabilities to participate, often due to health and safety reasons. As such, RC-sponsored services provide some of the only access to social/recreational activities.

Questions for the Administration: The following questions are posed to the Administration:

- **1.** Please describe your proposal.
- **2.** Why does the Administration believe that Respite Services are a "non-core" service?
- **3.** What other options do consumers and family members have if these services are not funded by the state?

5. In-Home Supportive Services (IHSS)

Background: The **In-Home Supportive services (IHSS) program provides services to 329,000 low-income aged, blind or disabled individuals that allow them to remain safely in their own homes as an alternative to out-of-home care.** Seventy seven percent of the persons receiving IHSS are provided federally reimbursable services through the Personal Care Services Program. The remaining are served through the State's IHSS Residual Program.

The IHSS Residual program funds the following IHSS services:

- Services delivered to minor children whose IHSS provider is a parent;
- Services delivered to consumers whose IHSS providers is a spouse;
- Protective supervision services provided to clients needing around the clock care;
- Cases where the recipient is severely disabled and receives payment in advance of service delivery;
- Services delivered to consumers who only require assistance with domestic chores;
- Restaurant meal allowances to consumers who receive those services.

IHSS consumers tend to remain in the program for at least 4 years. A 2002 review of the program found that **the most common reason why consumers left the program was due to death (29%). The second most common reason for leaving IHSS was consumers transitioning to out-of-home care or to a skilled nursing facility**.

The availability of IHSS, as well as other home and community based services, appears to have helped reduce nursing home utilization in California. Since the 1990s, the number of Medi-Cal eligibles over age 65 has increased almost 25%, yet the average nursing home utilization has decreased from almost 44 days per Medi-Cal eligible aged 65+ in 1991 to just over 36 days per eligible in 2001.

The IHSS caseload has grown significantly faster than population growth. Caseload growth has been fueled by the aging of California and a clinical and programmatic shift to support elderly persons and persons with disabilities in community settings, away from more restrictive and expensive models of care. As a result of increased caseload and increased provider rates, General Fund costs in this program have increased substantially. Regardless, costs per individual (less than $9,000) are less than one-fifth the costs of nursing home placement.

Governor's Proposal: The Governor **eliminates the In-Home Supportive Services Residual Program** effective April 1, 2004 for savings of $90.3 million (General Fund) in the current year and $367.9 million in the budget year. **This savings level reflects the termination of services to 74,200 low-income aged, blind or disabled Californians at risk of institutionalization.** Specifically, beneficiaries affected by the proposed elimination are consumers whose service provider is a parent or a spouse, consumers in need of protective supervision, and persons with severe disabilities who receive payment prior to service delivery.

Seventy-five percent of IHSS Residual consumers receive protective supervision, domestic services only, a restaurant meal allowance or are persons covered by third party insurance.

These **consumers will become ineligible for services or will lose a significant number of the hours of service they receive.** The **remaining consumers will remain eligible for IHSS services.** To continue receiving services they will need to alter their existing provider arrangement.

Savings resulting from program elimination will be offset by higher state costs resulting from increased participation in the IHSS PCSP program and an increase in the level of institutionalization among Medi-Cal beneficiaries.

Questions for the Administration: The following questions are posed to the Administration:

- **1.** Please briefly describe your proposal.
- **2.** How will the proposed elimination of the IHSS Residual program impact California's compliance with the *Olmstead* decision?
- **3.** What may happen to those clients who currently rely on the IHSS Residual program to remain safely in their homes?
- **4.** What percentage of individuals on the Residual program will require institutional care in the absence of IHSS within 6 months and within 12 months?

6. California Veterans Cash Benefit Program

Background: Assembly Bill 1978 (Cedillo), Chapter 143, Statutes of 2000, established a state funded cash benefit for Filipino veterans of World War II who were receiving State Supplementary Payment benefits on December of 1999 and who have returned to the Republic of the Philippines. The veterans receive a payment equivalent to California's State Supplemental Payment. The veterans also receive a federal cash benefit, which currently amounts to $414 per month. The California Veterans Cash Benefit program serves approximately 1,700 veterans on an annual basis.

Governor's Proposal: **Eliminate the California Veterans Cash Benefit Program** for General Fund savings of $1.4 million in the current year and $5.5 million in 2004-05.

Question for the Administration: The Subcommittee has requested that the Department of Finance discuss the effect of the proposed program elimination on the veterans served by the Veterans Cash Benefit program.

7. California Work Opportunity and Responsibility to Kids (CalWORKs)

Background: CalWORKs beneficiaries must meet specified eligibility criteria including having a family income below the CalWORKs maximum aid payment, having less than $2000 in resources, and having a car valued at $4,650 or less. The average family of three must have an annual income below $12,144 or 79 percent of the federal poverty level to be eligible for CalWORKs.

A family's CalWORKs grant depends on its size, available income and resources. Grants also depend on the cost of living of the area in which the family resides. The maximum grant for a family of 3 on CalWORKs under current law is $728 per month.

Governor's Proposal: Proposes to (1) **reduce CalWORKs grants by 5 percent** for federal fund savings of $44.3 million in the current year and $179.7 million in the budget year and (2)**retroactively suspend the October 2003 cost of living adjustment** for savings of $95 million in the current year and $127 million in the budget year. **These proposals amount to an 8.1 percent grant reduction from the current law level.**

The Governor proposes to reduce CalWORKs grants for an average family of 3 by $59 per month to $669. The proposed maximum grant is lower than the grants in effect in 1989. The grant reduction will be partially offset by a $27 increase in monthly food stamps benefits. **An average family of 3 with no earned income will experience a decrease in their income from 80 to 77 percent of the federal poverty level.**

CalWORKs recipients expend their grants to pay for rent, clothing and other necessities. They expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, Fair Market Rents for a one-bedroom apartment in California average $657 per month and range from $406 in Modoc to $1535 in San Mateo, $764 in Los Angeles, $564 in Riverside, $934 in Orange and $972 in Santa Cruz. **Since 1990 rent prices have increased by 36 percent and the purchasing power of a CalWORKs grant has declined by 26.6 percent.**

In addition to reducing the resources of families on CalWORKs**, the proposed grant reduction will make more than 7,000 families ineligible for the program.** These families, which will most likely be the lowest income families receiving cash aid, may lose supportive services in addition to losing their cash assistance.

Questions for the Administration: The following questions are posed to the Administration:

- 1. Briefly describe the proposed CalWORKs COLA suspension and grant reduction.
- 2. How will these proposals affect low-income families participating in CalWORKs?
- 3. How will the families that become ineligible for CalWORKs be affected by the proposed reduction? Will they lose services that support their continued employment?

8. TANF Fund transfer to non-CalWORKs programs

Background: The CalWORKs program is funded through a federal TANF block grant which amounts to $3.7 billion and federally required state matching funds (MOE). In addition to funding the CalWORKs program, California funds the KinGAP program, childcare programs and other programs that serve low-income families and youth with TANF funds. TANF funds also support county probation facilities, community colleges and teenage pregnancy prevention efforts. **Since the 2000-01 fiscal year the amount of TANF funding spent outside the core CalWORKs program has more than doubled to over one billion dollars.**

The full implementation of the CalWORKs program, increased demand for services, and caseload growth in non-CalWORKs TANF funded programs have increased pressure within TANF/MOE funding. Federal TANF Reauthorization may increase further the pressure within TANF/MOE funding as it will likely increase work participation requirements and reduce the number of allowable work activities without increasing the TANF funding available to states.

Governor's Proposal: Transfer $41.1 million in TANF funds from CalWORKs to IHSS in the current year and in the budget year transfer $119.5 million in TANF funds from CalWORKs to IHSS, Foster Care, Child Welfare Services and Department of Developmental Services to offset General Fund costs.

The proposed transfers of TANF funds from CalWORKs to other programs reduce available resources for the CalWORKs program. **California's continued use of TANF funds to support non-CalWORKs programs is seriously limiting the state's ability to continue to afford the CalWORKs program without additional General Fund spending.** Failure to fully fund the CalWORKs program may limit the state's ability to meet federal participation standards and may lead to federal penalties.

Questions for the Administration: The following questions are posed to the Administration:

- 1. Briefly describe the recent changes in California's use of TANF funding.
- 2. Please provide a specific breakdown of current and proposed new TANF fund transfers to non-CalWORKs programs.
- 3. How will the proposed transfer of TANF funds to other programs affect California's ability to continue to afford the CalWORKs program?

9. Food Stamps Program

Background: **The Food Stamps program provides eligible low-income families and individuals food stamps benefits at no cost.** The program is overseen by the Department of Social Services and is administered by the counties. **The Food Stamps program will serve an estimated 1.9 million persons in the current year.** Currently, the federal Food Stamps Program serves approximately 53% of all eligible Californians.

The U.S. Department of Agriculture funds the total benefit value of food stamps. The federal government also funds 50 percent of the program's administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 70 percent to 30 percent respectively.

A. Transitional Food Stamps Benefits

Background: The federal government recently granted states an opportunity to provide five months of federally funded transitional food stamp benefits for people leaving cash assistance to help these families make a successful transition from welfare to work. The Budget Act of 2003 provided funding to implement this federal option in California. Under current law, California will begin providing transitional food stamp benefits to families leaving CalWORKs on January of 2004.

Governor's Proposal: Eliminate transitional food stamps benefits for savings of $1.2 million GF in the current year and $3.1 million GF in the budget year.

Elimination of the transitional food stamps program will result in a $165.5 million loss in federal food stamps benefits for 66,000 low-income California households. According to a recent U.S. Department of Agriculture study, every dollar federal food stamps dollar generates $1.84 in local economic activity. Therefore, **elimination of the transitional food stamps benefits will result in a $305 million loss in local economic activity in California.**

Questions for the Administration: The following questions are posed to the Administration:

- 1. Please briefly describe your proposal.
- 2. How will the proposed elimination of transitional food stamps impact families transitioning from welfare to work?
- 3. What is the impact in terms of lost federal food stamps benefits of this reduction?

9. Food Stamps Program *(Continued)*

B. Repeal Recent Food Stamps Program Reforms

Background: **Only half of all eligible Californians access food stamps benefits. Working families, who comprise 71 percent of eligible households, are especially unlikely to participate in the program.** Informed observers and administrators suggest that the number of administrative barriers applicants must overcome to access the program may contribute to the depressed level of participation by eligible individuals.

Assembly Bill 231 (Steinberg), Chapter 743 of the Statutes of 2003 seeks to increase participation in the food stamps program among eligible families by simplifying the application process and modifying program eligibility criteria. Specifically, AB 231, effective January 1, 2004, eliminates the state requirement that food stamps applicants complete a face-to-face interview and provides that car ownership and value shall not affect food stamps eligibility. The new law is expected to increase participation in the Food Stamps program by 15,000 households.

Governor's Proposal: Repeal recent food stamps program reforms for General Fund savings of $186,000 in the current year and $444,000 in the budget year.

Repeal of recent food stamps program reforms will result in a $37 million loss in federal food stamps benefits for 15,000 low-income California households. According to a recent U.S. Department of Agriculture study, every dollar federal food stamps dollar generates $1.84 in local economic activity. Therefore, **the Governor's proposal will result in a $68 million loss in local economic activity in California.**

Questions for the Administration: The following questions are posed to the Administration:

- 1. Please briefly describe your proposal.
- 2. How will the proposed repeal of recently enacted food stamps reforms affect participation in the Food Stamps program?
- 3. How will this proposal affect California's low-income households?
- 4. What is the impact in terms of lost federal food stamps benefits of this reduction?

10. Community Care Licensing Division

Background: **California began assessing fees from a wide range of facilities licensed by the Department of Social Services in 1992.** The fees were established to cover a modest portion of the costs for the state's licensing program. They are assessed on a per facility basis, with the exception of fees levied on child care centers operating more than one facility.

The Community Care Licensing Division (CCLD) fees are consistent with state policy designed to assure providers and licensees partially finance the cost of regulatory programs. Similar fees are assessed on managed care plans, physicians, lawyers, water agencies, public health professionals, and licensing of health facilities such as skilled nursing facilities and intermediate care facilities.

Since established in 1992, the DSS fees had remained unchanged. The Budget Act of 2003 and its implementing legislation substantially **increased the CCLD fees, established a new fee on foster family agencies and eliminated the cap on certain child care center fees**. Fees on child care providers generally doubled while fees on residential care providers increased by at least 25 percent. CCLD fees will now generate $14 million in revenue and will cover 40 percent of the General Fund portion of the Community Care Licensing Division's budget.

Governor's Proposal: The Governor proposes to increase fees paid by CCLD licensees over a three-year period to fully fund the community care licensing costs with fee revenue. This proposal is expected to increase revenues by $1.2 million in the current year and $5.8 million in the budget year. The total General Fund cost of the CCLD program, which the Governor proposes to cover with fee revenue is $35 million.

The state and counties are the primary, and in some cases the sole, purchasers of services provided by many CCLD licensees. Substantial CCLD fee increases are tantamount to a rate reduction for some providers. Such increases may result in a loss of available providers and additional pressure for adjustment of the state's reimbursement rates.

Subcommittee Questions: The Subcommittee has requested that the Department of Finance and/or the Department of Social Services answer the following questions:

- 1. Please briefly describe the Administration's proposal.
- 2. How will the proposed fee increases be implemented?
- 3. What percentage of services delivered by CCLD licensees is exclusively or principally purchased by governmental entities?

11. Supportive Transitional Emancipation Program

Background: Established in January 2002, the Supportive Transitional Emancipation Program provides financial assistance to emancipating foster youth up to age 21 who are participating in an educational or training program. The program operates as a county option, not as a mandatory foster care program. If a county opts to provide financial assistance to emancipating foster youth through STEP the state is required to match county funds consistent with the existing state-county matching rates for foster care assistance payments (40-60 percent of all non-federally funded costs). Given fiscal constraints at the local level, to date no county has opted to implement STEP.

Governor's Proposal: Eliminate the Supportive Transitional Emancipation Program to avoid costs in future years resulting from counties that choose to implement the program.

Questions for the Administration: The Subcommittee has requested that the Department of Finance provide a brief description of the proposal and discuss the need to eliminate this program.

12. Department of Industrial Relations

Background: The Department of Industrial Relations works to protect California's workforce, improve working conditions and advance opportunities for profitable employment by working to prevent industrial injuries and deaths, as well as promulgating and enforcing laws relating to wages, hours and conditions of employment. The Department investigates potential violations of occupational safety and health standards and enforces multiple laws designed to assure a safe workplace for Californians.

Governor's Proposal: Reduce the Department of Industrial Relations by $800,000 General Fund and eliminate 10 positions in the current year.

The Governor proposes to eliminate 5 positions in the Division of Occupational Safety and Health, 3.5 positions in the Division of Labor Standards Enforcement, 1 position in the Division of Labor Statistics and Research and 1 position in the Office of the director. All the positions proposed for elimination have been vacant since July 2003.

The Department of Industrial Relations reports that elimination of these positions may lead to the following:

- **200 to 240 fewer annual occupational safety inspections.**
- **80 to 120 fewer annual occupational health inspections.**
- **Delays in enforcement of prevailing wage laws and reduced collection of unpaid wages.** Positions proposed for elimination are normally responsible for the collection of approximately $1.1 million in unpaid wages and $0.3 million in penalties deposited into the State's General Fund. Elimination of these positions could result in lower penalty collections. However, the department has not reported lower penalty collections for 2003-04 or 2004-05.
- **Decreased revenue from penalty collections to the Uninsured Employers Benefit Trust Fund, and in "death without dependents" revenues deposited into the Subsequent Injuries Benefit Trust Fund.** However, a reduction in collected revenues will not affect the individuals receiving benefits from these funds.

Subcommittee Questions: The Subcommittee has requested that the Department of Finance briefly describe the proposed reduction, the impact of this reduction on CalOSHA investigations and its impact on enforcement of labor laws.

13. Item 9350 Shared Revenues: Elimination of Vehicle License Fee Poison Pill

Background—1991 Realignment: Chapters, 85, 87, 89 and 91, Statutes of 1991, and Chapter 100, Statutes of 1993, established Realignment by giving counties increased responsibilities for a variety of health, mental health and social services programs. In addition, new revenue was provided to fund these programs; the ***key* revenue provisions** included the following:

- Modified the vehicle depreciation schedule which increased the VLF revenues (Chapter 87, Statutes of 1991). The increased VLF revenue resulting from the depreciation change is estimated to be $1.3 billion in 2003-04.
- Increased sales taxes by one-half cent. This Sales tax revenue is estimated to be $2.3 billion in 2003-04.

There are a number of provisions throughout the Realignment legislation which would make the $1.3 billion in VLF revenues *inoperative* if a final appellate court decision finds that the 1982 Medically Indigent Adult (MIA) program transfer legislation constitutes a reimbursable mandate. Essentially, the depreciation schedule upon which the fees are based would revert to the one that existed prior to the Realignment legislation reducing fees by about 24 percent on average, and therefore Realignment funding.

Background--Medically Indigent Adult Program (MIA): In 1982, the State transferred the MIA program piece of the Medi-Cal Program to the counties and provided funding at 70 percent of its costs. Since the counties did not have to meet the Medi-Cal standards, it was thought the 70 percent funding level was generally workable. **Since this time, there have been a series of court rulings**. **The most recent of which found that the state owes San Diego County $3.5 million in back payment (as discussed below).**

Background—Recent Court Ruling: The **Court of Appeal has recently ruled that the State is required to reimburse San Diego County $3.5 million for costs incurred to fund the county's health care costs for "Medically Indigent Adults" (MIAs) in the 1990-91 fiscal year**. The Court found that this amount was expended by the County in excess of the funds provided by the state. The state filed a petition for review with the Supreme Court on October 31. The Supreme Court has 90 days to decide if it accepts the petition for appeal. **If the petition for appeal is denied by the Supreme Court, the Court of Appeal decision is final immediately. If this becomes the case, the poison pill provisions of Realignment would likely be activated.**

Governor's Proposal: The Governor is **proposing statutory changes to eliminate the so called "poison pill" provisions of the 1991 Realignment statute so that the existing programmatic structure of the affected programs and their local funding will remain in place**, including the current vehicle depreciation schedule, regardless of the final outcome of the San Diego County litigation. (It should be noted that this vehicle depreciation schedule is *not* related to current discussions regarding the fee level.)

Subcommittee Staff Comment: At this time, no issues have been raised by the Governor's proposal.

14. Revert Prior Year Savings and Unspent Current Year Funding

Governor's Proposal: The Governor proposes to revert a total of $29.6 million (General Fund) from the prior year (2002-03) and the current year (2003-04). Most of this proposed savings is due to revised caseload information, administrative savings or updated implementation schedules of recently enacted program changes. Generally the Legislature considers reversions of unexpended funds during the regular budget process. According to the Administration, the Governor is proposing these reversions as part of his Mid-Year reversions to capture savings as soon as feasible. **The proposed reversions are listed below:**

Table: Governor's Proposed Prior Year and Current Year Revisions

Department	2002-03 Proposed GF Savings	2003-04 Proposed GF Savings	Description
Emergency Medical Services Authority	$129,000		Savings obtained from unexpended prior year appropriation for state support.
Alcohol & Drug	$163,000		Prior year savings are from funds for the Health Insurance Portability and Accountability Act (HIPPA) which are not needed.
Health Services	$8.2 million	$1.2 million	Prior year savings from unexpended appropriation. Current year savings are from HIPAA funds which are not needed.
Managed Risk Medical Insurance	$2.3 million		Prior year savings is due to lower than anticipated Healthy Families caseload (since the appropriation was an estimate).
Developmental Services	$2.7 million		Of this amount, $2 million is from lower caseload at the Developmental Centers, and the remainder is from HIPAA funds which are not needed.
Mental Health	$1.4 million		Savings are from unexpended HIPAA funds and from the purchase of additional county-beds at the State Hospitals which offsets some state GF.
Community Services & Development	$571,000		Savings result from termination of the remaining California Low-Income Home Energy Assistance Program (LIHEAP) contracts. Cal LIHEAP helps low-income Californians reduce energy consumption and pay their energy bills by providing weatherization services and financial assistance to eligible households. Current law authorizes the state to spend the Cal LIHEAP funds until January 2005.

Rehabilitation	$7.5 million	$854,000	Savings reflect a reduced demand for employment services.
Child Support Services	$2.6 million	$1.9 million	Savings result from canceled implementation of the Medical Support Order Enhancement initiative as implementation costs were expected to exceed the generated savings. Savings also reflect a delay (November 2003 to January 2004) of the Child Support Collections Enhancement initiatives included in the Budget Act of 2003.
TOTALS (rounded)	**$25.6 million**	**$3.9 million**	

Questions for the Administration: Please briefly respond to the following questions.

- **1.** Please **briefly** describe each of the proposals.

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